

IP FINANCE – (CONTINENTAL) EUROPEAN EXPERIENCES DRAWING ON AUSTRIA AND SWITZERLAND

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A working definition

of IP finance

- Corporate finance, as a specific area of finance, is concerned with financing the decisions of businesses with the goal of maximizing company (share) value. Financing decisions hereby are meant, amongst others, to define *"a mix that maximizes the value of projects taken"* with the mix covering debt and equity. (Damodaran, n.d)
 - According to Divestopedia, *"...in short, any operation or aspect that involves the finances of an organization is part of corporate finance."* (Divestopedia 2015)
- IP finance can be understood rather broadly as any means (debt finance, equity finance) where IP is used to finance a firm
- Under-researched topic

Data obtained

- Two studies (one smaller for Austria, one larger for Switzerland)
 - Through literature and document review
 - Interviews with IP and Finance experts
 - Switzerland: 16
 - Austria: 9
- Results can be probably extrapolated to many (continental) European countries

Major results for both countries (I)

- IP is viewed as very important for the finance of firms, but the use of IP is limited to specific types of firms and finance
- In both countries, IP finance is mostly associated with the equity finance of high-tech start-ups
 - Showcasing value to Venture Capital (VC) investors
 - Mostly in relation to patents (more on that later)
- By contrast, IP debt finance plays only a marginal role
 - Role increasing through use of Venture Debt (VD)
- There are no state-sponsored support measures in place specifically for IP finance
 - However, there are measures in place to support IP use in firms that also tackle financing aspects

Major results for both countries (II)

- IP valuation in IP finance is hardly done in isolation, but (only) as part of company due diligence
- Valuation methods vary and range from simple checklists to sophisticated assessments
 - Rarely will there be a monetary value calculated (rather a qualitative assessment)
 - More sophisticated assessments use the services of specialised attorney and company firms, of which many are outside of Switzerland or Austria

Major results for both countries (III)

Type of IP	Use in IP finance	Topics / Comments
Patents	++++	By far most important type of IP for financing
Copyrights	++	For software firms; crucial point is use of open source software
Trademarks	+	Not used often with start-ups, because trademarks may not be yet too much known
Designs	0	Hardly evidence of being taken into account
Trade Secrets	+(+)	Particularly important when there are production processes in play, difficult to value

Example of State Support

Switzerland: Innosuisse Start-Up Coaching



- Start-Ups can apply and if found good obtain vouchers to spend on accredited coaches
- Of the around 190 coaches, 35 are IP coaches (as so-called special coaches) which can be called upon by a lead coach for a start-up
- Obtaining an “Innosuisse certificate” requires a review of IP fitness and strategy
- Much of the advice given “...centers around finance and how the value of the IP in companies can be presented [to investors, ed.]” (interview)

The issue of IP debt finance

- Apart from VD, classic bank loans are only provided if there is evidence that the loan can be repaid through operative cash flows
 - Sometimes, IP is seen as additional benefit (but rarely technically a collateral)
- VD if used is mostly channeled through U.S. providers
- Reasons not to use IP as collateral
 - Banking regulations (creates risk aversity)
 - Need to commercialise the patent through the bank if there is a default (difficult to do for the bank)

Notable challenges

In both countries

- Awareness and training
 - Need to improve local VC and VD markets particularly for later stage funding rounds
 - In Austria: Fragmentation of support offerings in the field of IP
 - In Switzerland: Discussion regarding a state-owned innovation investment fund
- In both countries, there were no calls specifically for IP finance specific state measures.
- In both countries, there seems to be little outspoken demand to change anything in relation to IP debt finance

Thank you very much!

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